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FOR ASSISTANT SECRETARY SHANNON FROM AMBASSADOR EATON

E.O. 12958: DECL: 05/10/2016

TAGS: PGOV PREL ETRD PM CU VE CH

SUBJECT: PANAMA SNAPSHOT FOR PRESIDENT TORRIJOS'S VISIT TO TEXAS

Classified By: AMBASSADOR WILLIAM EATON FOR REASONS 1.4 (B) AND (D).

**¶1.** (U) This message is intended as a scenesetter for A/S Shannon and former President Bush's May 11 meeting with President Torrijos.

**SUMMARY**

**¶2.** (C) The Embassy's relations with the Torrijos government (GOP) are warm and bilateral cooperation on security and anti-narcotics matters remain strong. At the same time, local political calculations surrounding a planned referendum on Canal widening have hobbled chances for a bilateral FTA. We also find disquieting recent trends in the increasing prominence of former Noriega cronies within the GOP and in the GOP's apparent eagerness to improve relations with Cuba and Venezuela. Amid a residential boom in Panama City, where high-rises are under construction seemingly on every corner, increasing poverty, want, and inequality are receiving little attention. End Summary.

**Canal Widening in Focus**

**¶3.** (SBU) At the moment, the Panamanian government's (GOP) central policy objective is winning a yet-to-be-scheduled referendum on widening the Canal to permit much larger ships to pass than 106-foot-wide Panamax vessels. Supposedly 70% of Panamanians favor the referendum, which may be held as early as November though many influences could soften that support as the date approaches. The Canal Authority (ACP) has said that the \$5.25 billion project will take eight years to complete and directly create 7000 jobs. The project is to be financed directly through ACP revenues and bridge loans.

**FTA Gets Short Shrift**

**¶4.** (SBU) With all its resources and attention focused on an upcoming referendum to widen the Panama Canal, the GOP has de-emphasized an important item on the bilateral agenda, namely the Free Trade Agreement (FTA). Although FTA negotiators have completed nine rounds of talks, the GOP appears nervous about possible opposition to the FTA, which could harm passage of the Canal referendum. As a result, the GOP is reluctant to satisfy all of USTR's requirements on sanitary and phytosanitary issues (SPS), at least until after the Canal referendum. Meanwhile, USG "fast track" negotiating authority expires in June 2007. The outlook is grim.

**Security/Anti-Corruption Cooperation**

**¶5.** (C) Our security priorities of anti-narcotics and mil-to-mil cooperation remain strong, though probably not at the level we enjoyed under the 1999-2004 Moscoso government. Unlike the Moscoso government, the current GOP has a

plausible attorney general, who is willing to cooperate on anti-corruption issues. Like Moscoso, the Torrijos government has undertaken no notable anti-corruption prosecutions whatever. It is willing to talk but not act. In 2005, on the Embassy's advice, the USG revoked the visa of Supreme Court magistrate Winston Spadafora under 212(f) corruption provisions. More revocations are being considered.

#### Noriega-era Figures Return

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¶6. (C) In general, U.S. relations with the GOP are warm but following the November visit of President Bush, we have noted trends in the GOP's ideological coloration and orientation that we find disturbing. First, Noriega-era figures, such as former "dignity battalions" chief Benjamin Colamarco (recently named Public Works minister), the presumed killer of U.S. service member Zak Hernandez, Pedro Miguel Gonzalez -- and a host of former Panamanian Defense Force (PDF) officers and others -- are gaining prominence within the GOP and the ruling PRD. Colamarco's appointment in particular casts serious doubt on the GOP's anti-corruption credibility. Despite the ascendancy of Noriega's, the GOP has announced its intention to jail Noriega after his planned release from U.S. custody in November 2007.

#### Cuba-Venezuela-China Relations

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¶7. (C) Second, the GOP has devoted steadily increasing effort to improving relations with Cuba and Venezuela. (On May 9 Panama voted for both countries at the UN Human Rights Council, not to mention China.) Martin Torrijos made a high-profile visit to Cuba immediately following the November 2005 President Bush visit, his second after the September 2005 resumption of bilateral relations (repairing the August 2004 rupture following Moscoso's surprise pardon, release, and flight of convicted anti-Castro plotter Luis Posada Carriles). A steady stream of senior GOP officials have since traveled to Havana, many of them more than once. Separately, the GOP has given indications that it intends to switch diplomatic recognition to China from Taiwan at an appropriate moment.

#### Operacion Milagro

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¶8. (C) Also, the GOP has facilitated the widely popular Operacion Milagro (Operation Miracle), a Cuban-Venezuela joint-venture which brings low-income Panamanians to Cuba for cataract and other eye operations. While Cuba and Venezuela reap a public relations windfall, the GOP has tried to bask in the glow. In a related development, the GOP recently waived visa requirements for Cuban diplomats and permitted Milagro to open offices in Panama City.

#### Widespread Income Inequality, Poverty Amid Plenty

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¶9. (SBU) Panama remains riven by the Hemisphere's second-worst income distribution and a 40-plus percent poverty rate, despite consistently high rates of economic growth and billions of dollars in investment in so-called "residential tourism" projects funded by American and European citizens. While rich Panamanians enjoy one of the highest standards of living in Latin America, the ranks of the poor are increasing. Aside from a program of subsidies and handouts, the GOP has no credible strategy to create jobs and to drastically improve education, health, and other social indicators. Few observers believe that Canal expansion will "trickle down" to make a significant difference to Panama's disadvantaged. The issue remains a time bomb with a shorter and shorter fuse.

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